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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE
27 August 1954

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TO: Deputy Director (Intelligence)
SUBJECT: Weekly Summary of Trieste Developments

The London negotiations for a Trieste settlement appeared this week to be approaching their final and most problematic phase with nearly all the minor points at issue either settled, in the process of being settled, or set aside to be worked out in later Italian-Yugoslav talks. The controversy thus appeared to be narrowing down to the two related major questions of financial settlement and territorial adjustment. The US and Britain are still awaiting a decisive Yugoslav reply to the high-level demarches made on 29 July regarding the question of territory.

Agreement on the issues of minorities and freedom of circulation appeared close. The Italians indicated a willingness to provide sites or funds for the establishment of Slovene cultural houses in Zone A. As for the question of consulates, American delegate Thompson had worked out a formula which he thought he could get Italy and Yugoslavia to accept. Thompson and British delegate Harrison were attempting to finish discussion of all the minor points this week.

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State Dept. review completed

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If the Italians again indicate that they will break off negotiations unless some of their territorial demands are met, Thompson and Harrison are prepared to present two alternatives. Under the first, the Italians would accept the 31 May demarcation line agreed to by Yugoslavia and discussions of reparations would remain for later disposal. Under the second, Yugoslavia would cede some territory at the western end of the 31 May line and would receive a lump sum reparations payment of \$30,000,000.

On 24 August in Rome, Premier Scelba outlined to Ambassador Luce a stand very similar to Brosio's. He said Italy was willing to put aside all the unsettled minor points in the London negotiations, but would insist on "as much territorially as was promised Pella on 8 October." Any other arrangement, he declared, would be interpreted as an Italian defeat.

Scelba predicted that a Trieste settlement would have "a tremendous psychological value in offsetting Communist claims concerning the failure of Atlantic policy," and that Italy would "work well" with Yugoslavia in Mediterranean defense matters after the final solution.

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